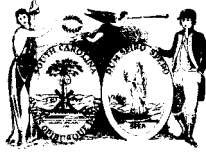


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

March 7, 2002

Mr. Charlie Goff  
Generations, Inc.  
1330 Kinard Street  
Newberry, South Carolina 29108

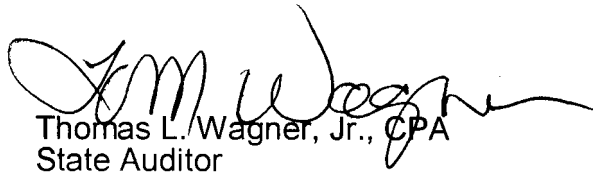
Re: AC# 3-JFH-J9 – J. F. Hawkins Nursing Home, Inc.

Dear Mr. Goff:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph Hayes

**J. F. HAWKINS NURSING HOME, INC.**

**NEWBERRY, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2000  
AC# 3-JFH-J9**

**REPORT ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

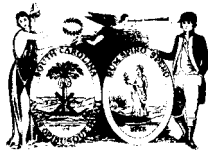
**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



## Office of the State Auditor

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 19, 2001

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with J. F. Hawkins Nursing Home, Inc., for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

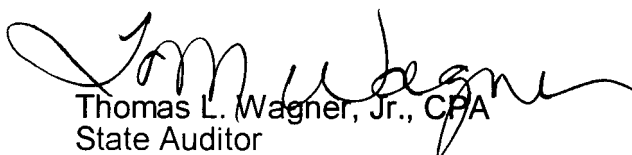
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by J. F. Hawkins Nursing Home, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and J. F. Hawkins Nursing Home, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
March 19, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**J. F. HAWKINS NURSING HOME, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2000  
AC# 3-JFH-J9

Interim reimbursement rate (1)	\$100.28
Adjusted reimbursement rate	<u>99.51</u>
Decrease in reimbursement rate	\$ <u><u>.77</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

**J. F. HAWKINS NURSING HOME, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period Beginning October 1, 2000  
AC# 3-JFH-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$47.04	\$50.22	
Dietary		12.69	10.56	
Laundry/Housekeeping/Maint.		<u>9.76</u>	<u>9.12</u>	
Subtotal	\$ <u>.41</u>	69.49	69.90	\$69.49
Administration & Med. Rec.	\$ <u>1.22</u>	<u>9.98</u>	<u>11.20</u>	<u>9.98</u>
Subtotal		79.47	<u>\$81.10</u>	79.47
<u>Costs Not Subject to Standards:</u>				
Utilities		2.57		2.57
Special Services		-		-
Medical Supplies & Oxygen		1.19		1.19
Taxes and Insurance		.57		.57
Legal Fees		<u>.22</u>		<u>.22</u>
<b>TOTAL</b>		<u>\$84.02</u>		84.02
Inflation Factor (3.20%)				2.69
Cost of Capital				8.89
Cost of Capital Limitation				(.21)
Profit Incentive (Max. 3.5% of Allowable Cost)				1.22
Cost Incentive				.41
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Nurse Aide Staffing Add-On 10/01/00				.86
Nurse Aide Staffing Add-On 10/01/99				<u>1.63</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$99.51</u>

**J. F. HAWKINS NURSING HOME, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,713,247	\$ 6,782 (11) 2,222 (11)	\$ 19,491 (4) 18,252 (10) 2,183 (10)	\$1,682,325
Dietary	465,262	3,241 (13)	8,081 (10) 1,295 (11) 5,140 (12)	453,987
Laundry	85,440	1,204 (10) 12,189 (11)	-	98,833
Housekeeping	176,053	452 (13)	4,505 (10) 3,522 (11)	168,478
Maintenance	79,842	482 (5) 2,113 (11)	814 (10) 9 (13)	81,614
Administration & Medical Records	425,236	17,352 (13)	31,591 (2) 9,007 (5) 16,282 (6) 11,016 (10) 1,193 (10) 16,701 (11)	356,798
Utilities	94,056	4,197 (7) 147 (13)	6,467 (8)	91,933
Special Services	8,455	19,491 (4) 1,873 (11)	485 (10) 29,334 (14)	-
Medical Supplies & Oxygen	66,407	-	23,684 (9)	42,723



**J. F. HAWKINS NURSING HOME, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	20,299	-	61 (13)	20,238
Legal Fees	8,072	-	261 (13)	7,811
Cost of Capital	300,052	791 (13) 101,919 (16)	17,934 (1) 1,863 (3) 2,751 (15) 37 (15)	380,177
Subtotal	3,442,421	174,455	231,959	3,384,917
Ancillary	7,683	-	-	7,683
Non-Allowable	1,761,001	17,934 (1) 31,591 (2) 1,863 (3) 8,525 (5) 16,282 (6) 6,467 (8) 23,684 (9) 37,462 (10) 7,863 (10) 65,966 (11) 29,334 (14)	69,627 (11) 21,652 (13) 101,919 (16)	1,814,774
Total Operating Expenses	<u>\$5,211,105</u>	<u>\$421,426</u>	<u>\$425,157</u>	<u>\$5,207,374</u>
Total Patient Days	<u>35,763</u>	<u>-</u>	<u>-</u>	<u>35,763</u>
Total Cost of Capital Days	<u>35,763</u>	<u>7,008 (17)</u>	<u>-</u>	<u>42,771</u>

TOTAL BEDS

98

**J. F. HAWKINS NURSING HOME, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 17,934	
	Other Equity	7,281,264	
	Accumulated Depreciation	636,485	
	Fixed Assets		\$7,917,749
	Cost of Capital		17,934
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	31,591	
	Administration - Interest		31,591
	To disallow Interest Expense State Plan, Attachment 4.19D		
3	Nonallowable - Other	1,863	
	COC - Amortization		1,863
	To reverse DH&HS AJE #23, less Deemed Asset Value Limitation AJE #18 HIM-15-1, Section 2304		
4	Therapy	19,491	
	Nursing		19,491
	To properly classify expense State Plan, Attachment 4.19D		
5	Nonallowable	8,525	
	Maintenance	482	
	Administration		9,007
	To reclassify Administrative Expense to proper cost center State Plan, Attachment 4.19D		
6	Nonallowable	16,282	
	Administration		16,282
	To disallow expenses not adequately documented HIM-15-1, Section 2304		

**J. F. HAWKINS NURSING HOME, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Utilities	4,197	
	Accounts Payable		4,197
	To record expense applicable to current year HIM-15-1, Section 2302.1		
8	Nonallowable	6,467	
	Utilities		6,467
	To disallow nonallowable expenses HIM-15-1, Section 2304		
9	Nonallowable	23,684	
	Medical Supplies & Oxygen		23,684
	To disallow expense incorrectly classified & calculated HIM-15-1, Section 2304		
10	Nonallowable - Other	37,462	
	Nonallowable - Retirement	7,863	
	Laundry	1,204	
	Nursing		18,252
	Restorative		2,183
	Dietary		8,081
	Housekeeping		4,505
	Maintenance		814
	Administration		11,016
	Medical Records		1,193
	Therapy		485
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

**J. F. HAWKINS NURSING HOME, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable - Retirement	65,966	
	Nursing	6,782	
	Restorative	2,222	
	Laundry	12,189	
	Maintenance	2,113	
	Therapy	1,873	
	Dietary		1,295
	Housekeeping		3,522
	Administration		16,701
	Nonallowable - Other		69,627
	To adjust salaries		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
12	Other Income	5,140	
	Dietary		5,140
	To properly offset miscellaneous		
	income		
	HIM-15-1, Section 2304		
13	Cost of Capital	791	
	Administration	17,352	
	Housekeeping	452	
	Dietary	3,241	
	Utilities	147	
	Nonallowable		21,652
	Taxes & Insurance		61
	Legal		261
	Maintenance		9
	To adjust DH&HS stepdown adjustment		
	State Plan, Attachment 4.19D		
14	Nonallowable	29,334	
	Therapy		29,334
	To adjust Therapy costs		
	State Plan, Attachment 4.19D		

**J. F. HAWKINS NURSING HOME, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Accumulated Depreciation	12,352	
	Cost of Capital -		
	Depreciation Expense		2,751
	Cost of Capital -		
	Amortization Expense		37
	Other Equity		9,564
	To adjust expense to reflect Cost of Capital Policy State Plan, Attachment 4.19D		
16	Cost of Capital	101,919	
	Nonallowable		101,919
	To adjust capital return State Plan, Attachment 4.19D		
17	<u>Memorandum Entry:</u>		
	To increase patient days applicable to cost of capital by 7,008 days from 35,763 to 42,771 days to reflect addition of 20 beds effective August 23, 2000		
	TOTAL ADJUSTMENTS	<u>\$8,356,667</u>	<u>\$8,356,667</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**J. F. HAWKINS NURSING HOME, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3156</u>	<u>2.3156</u>	<u>2.3156</u>	
Deemed Asset Value (Per Bed)	36,165	36,165	36,165	
Number of Beds	<u>78</u>	<u>20</u>	<u>20</u>	
Deemed Asset Value	2,820,870	723,300	723,300	
Improvements Since 1981	1,253,979	24,102	-	
Accumulated Depreciation at 9/30/99	<u>(1,544,895)</u>	<u>(79,966)</u>	<u>(32,571)</u>	
Deemed Depreciated Value	2,529,954	667,436	690,729	
Market Rate of Return	<u>.060</u>	<u>.060</u>	<u>.060</u>	
Total Annual Return	151,797	40,046	41,444	
Return Applicable to Non-Reimbursable Cost Centers	(8,677)	(587)	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>4,762</u>	<u>1,221</u>	<u>-</u>	
Allowable Annual Return	147,882	40,680	41,444	
Depreciation Expense	105,340	30,104	32,571	
Amortization Expense	-	-	-	
Capital Related Income Offsets	-	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(14,202)</u>	<u>(3,642)</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	239,020	67,142	74,015	\$380,177
Total Patient Days (Minimum 96% Occupancy)	<u>28,463</u>	<u>7,300</u>	<u>7,008</u>	<u>42,771</u>
Cost of Capital Per Diem	\$ <u>8.40</u>	\$ <u>9.20</u>	\$ <u>10.56</u>	\$ <u>8.89</u>

**J. F. HAWKINS NURSING HOME, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-JFH-J9

6/30/89 Cost of Capital and Return on Equity			
Capital Per Diem Reimbursement	\$4.10	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.09</u>	<u>\$9.20</u>	<u>\$10.56</u>
Reimbursable Cost of Capital Per Diem		\$8.68	
Cost of Capital Per Diem		<u>8.89</u>	
Cost of Capital Per Diem Limitation		<u>\$ (.21)</u>	

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